

Daily Market Outlook

14 May 2021

FX Themes/Strategy

- Higher than expected US PPI data overnight reinforced the firm US CPI prints on Wed. Rate hike expectations pared the post-CPI spike, as US equities lifted off recent lows. Nevertheless, the risk-on bias as seen in the **FX Sentiment Index (FXSI)** has started to ease this week, with the equities space leading this cooling.
- The broad **USD** consolidated lower on Thu from its post-CPI gains climbed off lows overnight. **Antipodeans** are back within recent familiar ranges (AUD: 0.7700 - 0.7800; NZD: 0.7150 – 0.7250). Meanwhile, the USD-JPY may have seen a local bottom, especially if back-end UST yields can hold on to the post-CPI spike. The **EUR** may need to see a clear breach of the recent extremes at 1.1990/00 and 1.2180/00 for better directionality.
- The **CAD** underperformed as the BOC's Macklem sort to push back rate hike expectations in comments overnight – not to mention a dip in the crude complex overnight. Nevertheless, Macklem rolled out clear, numeric milestones on employment data that should provide clarity on the path ahead. Our structural preference for the CAD not impinged just yet.
- The broad USD's near term trajectory is still mixed at this juncture, as the market attempts to pare the recent spike. We are more comfortable with expressing USD strength against the JPY. Antipodeans may take cues from US equities, especially after a broader risk-on sentiment is being pared back.
- **USD-China:** USD-CNY and USD-CNH are still biased lower for now, but the fact that the pairs bounced off lows near 6.4000 suggest that our base case for broad 6.4000 – 6.6000 range remains intact.
- **USD-SGD:** The SGD NEER has softened from elevated levels around +1.30% above parity to stand between +0.50% to +1.00% since the start of May, and standing at +0.60% above parity this morning – we are more comfortable with the SGD NEER at current levels, as we think this is a better reflection of the policy trajectory over the next 2-4 quarters. Expect the SGD NEER to persist within the +0.50% to +1.00% range. On the USD-SGD front, the pair is off lows, but may see limited upside beyond 1.3370/00 for now. Bias for the pair to be corridorred between 1.3300 and 1.3370 for now.

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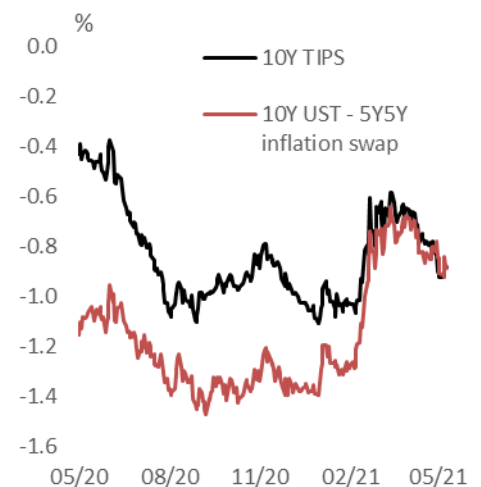
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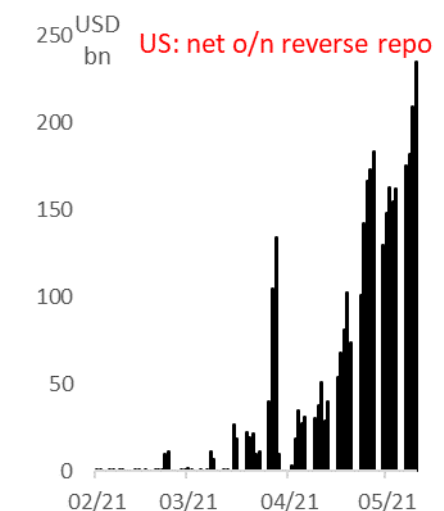
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Rates Themes/Strategy

- UST yields retraced from intraday high, to close the day 1-3bp lower across. Real yields edged lower with the 10Y TIPS staying just a tad higher than -90bp. Inflation expectation eased back somewhat but remained higher than that before the CPI release. Inflation and supply remain the key factors driving Treasuries.
- The deeply negative real yield probably reflects different interpretation on the nature – transitory or more persistent – of inflation. Triggers for yields to break higher include a change in the narrative on the nature of inflation towards the “persistent” camp, additional upbeat economic data, and realization of bond supply. We continue to see the 10Y yield mostly trading in a range of 1.55-1.75%, with an upside bias.
- At the front-end, the usage of the Fed’s o/n reverse repo surged to USD235.2bn on Thursday, reflecting excess liquidity in the market. The Treasury is paying down USD39bn of bills this week, and another USD41bn next week.
- As USD liquidity stays flush, there seems to be a lack of momentum for front-end SGD-USD spreads to narrow at the moment, before the USD liquidity situation changes – partially hinges on a resolution to the US debt ceiling, likely around late June/early July. T/n stayed relatively high. On bond side, market awaits the announcement of the sizes of the 5Y re-opening and the 2Y mini auction on 19 May. The 5Y re-opening shall not post much of a challenge, given the expected yield pick-up as the tenor is slightly longer than the current benchmark.
- CNY100bn of MLF matures on Monday in onshore China; a rollover is expected. Meanwhile, market braces for a pick-up in LGB issuance in the coming months. The combination of largely supportive liquidity condition and a pick-up in supply shall lead to a steepening bias in the curve. Despite expectedly supportive liquidity condition, we have turned neutral (from expecting downside) on back-end CNY forward points, as CNY-USD rates spreads appear to have stabilised.
- Korea’s import prices surged by 15%yoy in April. Over the past month, KRW rates have increased pricing of a rate hike on a 9-12M horizon. While the pricing looks hawkish, it underlies the notion that Korea is probably among the first to tighten in the region. A slew of upbeat data is likely to prevent front-end rates from adjusting for now.



Source: Bloomberg, OCBC



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